

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 FEA-02 INT-08 SCI-06 SPC-03

SAM-01 AID-20 NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20

STR-08 OMB-01 CEA-02 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 DODE-00 PM-07

H-03 L-03 PA-04 PRS-01 USIA-15 IO-14 NEA-11 DRC-01

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TAGS: ECON, ENRG, EFIN, FR

SUBJECT: PREPARATION FOR FEBRUARY 11 ENERGY CONFERENCE - CURRENT
FRENCH POLICY AND PROJECTIONS - UPDATED

REF: STATE 7324; PARIS 2757

1. SUMMARY. BUSINESS AND FINANCIAL REACTIONS TO PREVIOUS
WEEK'S MAJOR DEVELOPMENT, THE FRANC FLOAT, HAVE NOT BEEN ENTHUSIAS-
TIC. THE LATEST EVENT PROVOKED BY THE CRISIS IS THE ANNOUNCEMENT
ON THURSDAY, JANUARY 31, OF A RECORD-BREAKING FRENCH GOVERNMENT
LOAN OF \$1.5 BILLION. END SUMMARY.

2. BUSINESS AND FINANCIAL COMMENTARY ON THE FRANC FLOAT HAS
NOT BEEN ENTHUSIASTIC. ALTHOUGH GENERALLY RECOGNIZING THE MEASURE
WAS NECESSARY AS A MEANS OF PROTECTING FOREIGN EXCHANGE RESERVES,
COMMENTATORS HAVE FOCUSED ON THE UNFAVORABLE ECONOMIC CONSEQUENCES

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OF A LIKELY OVER-ALL DEPRECIATION OF THE FRANC. THE ADDITIONAL

INFLATIONARY THRUST IS WIDELY MENTIONED. THE BUSINESS MONTHLY EXPANSION AND FINANCIAL DAILY LES ECHOS ARGUE THAT ALTHOUGH A DE FACTO DEVALUATION WILL BRING LONG-TERM IMPROVEMENT IN THE BALANCE OF PAYMENTS, THERE WILL BE AN INITIAL PERVERSE REACTION WHICH WILL AGGRAVATE THE ALREADY PRECARIOUS SITUATION. PATRONAT (FRENCH EMPLOYERS ASSOCIATION) SPOKESMEN SAY THAT A DEPRECIATED FRANC WILL DO EXPORTERS LITTLE GOOD UNDER CURRENT CYCLICAL CONDITIONS. WITH THE ECONOMY ALREADY OPERATING AT CAPACITY, EXPORTERS WILL BE UNABLE TO TAKE ADVANTAGE OF IMPROVED INTERNATIONAL PRICE COMPETITIVENESS. (THIS ARGUMENT LEADS INTO DEMANDS FOR EASIER CREDIT CONDITIONS TO FINANCE ADDITIONAL CAPACITY.)

3. FRANCE TO BORROW \$1.5 BILLION ABROAD - DETAILS OF LOAN FIRST ANNOUNCED BY FINANCE MINISTER GISCARD D'ESTAING (PARIS 2757) HAVE NOW BECOME KNOWN. ALTHOUGH TOTAL OF U.K. AND ITALIAN EURO-DOLLAR BORROWINGS IS SUBSTANTIALLY HIGHER, INDIVIDUAL BORROWINGS ARE BY PUBLIC AGENCIES AND NOT GOVT, AND FOR SMALLER AMOUNTS. FRENCH GOVT LOAN WILL BE A RECORD. IT CONSTITUTES LINE OF CREDIT, WITH COMMITMENT FEE OF 0.25 PERCENT, ON WHICH FRENCH TREASURY CAN DRAW IN AMOUNTS IT CHOOSES FOR THREE, SIX OR TWELVE MONTHS. AMOUNTS OUTSTANDING CAN BE ROLLED OVER UP TO TOTAL OF SEVEN YEARS, BUT GOVT COULD TERMINATE ARRANGEMENT AFTER TWO YEARS. DRAWINGS WILL CARRY VARIABLE INTEREST RATE. BASED ON THE LONDON EURODOLLAR RATE. SPREAD FOR BANKS WILL AVERAGE 0.50 FOR SEVEN-YEAR PERIOD - AT 3/8 FOR FIRST TWO YEARS, 1/2 FOR NEXT THREE AND 5/8 FOR FINAL TWO.

4. PROCEEDS OF LOAN WILL IN PART BE USED TO STRENGTHEN FRANCE'S RESERVES, AND THUS HELP FINANCE IMPORT BILL. THE NATIONALIZED ENTERPRISES WILL ALSO BE FLOATING ISSUES OF THEIR OWN PERHAPS TALLING AN EQUAL AMOUNT, IT IS REPORTED. FRANC PROCEEDS OF GOVERNMENT BORROWING WILL BE STERILIZED BY THE CENTRAL BANK.

5. LOAN WILL NOT BE A PUBLIC ISSUE, HENCE OBVIATING NEED FOR PARLIAMENTARY APPROVAL. IT WILL BE MANAGED BY SOCIETE-GENERALE WITH EIGHT CO-MANAGERS, INCLUDING OTHER NATIONALIZED BANKS B.N.P. (BANQUE NATIONALE DE PARIS) AND CREDIT LYONNAIS, PLUS PARIBAS AND LAZARD FRERES, AND FOUR FOREIGN BANKS INCLUDING MORGAN GUARANTY. MANAGERS WILL PROBABLY TAKE UP SOMEWHAT MORE THAN HALF THE ISSUE (IN TRANCHES OF \$100 OR \$120 MILLION EACH) WITH OTHER BANKS TAKING LIMITED OFFICIAL USE

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THE REMAINDER IN TRANCHES OF \$10, \$25 OR \$50 MILLION. SOME U.S. BRANCHES HAVE COMPLAINED OF HEAVY-HANDED APPROACH TO THEM, INCLUDING IMPLIED THREATS RELAYED THROUGH NATIONALIZED BANKS, BUT ALL ARE EXPECTED TO PICK UP THEIR SHARES. SPREAD IS LOWER THAN 3/4 POINT LEVEL NOW GENERALLY PREVAILING, BUT PRESUMABLY FRANCE CAN BENEFIT BY ITS PREVIOUS ABSENCE FROM MARKET TO OBTAIN LOWER RATE.
IRWIN

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